# Budget Review FY25: Balancing social imperatives with fiscal prudence

- ***Boost for Jobs****: Of the multiple long-term challenges, the central focus of this budget has been on creation of employment and addressing the associated issues like skill formation. The measures announced try and address both the supply and demand side of the employment equation -- more simply there is a push towards creating more jobs (demand) while simultaneously improving the skill of the labour force (supply). The government's efforts to reap India's demographic dividend are visible in its push towards labour intensive production, its skilling initiative, incentivising formal job creation and increasing participation of women in the workforce. The budget estimates that these measures will help create 8 million jobs per year -- which is in line with the employment requirement (absorb the number of workers to be added each year) that has been set out in the economic survey.*

- ***Consumption boost:*** *Measures like the change in the income tax slabs and the direct benefit transfer to first time workers, is likely to spur consumption, particularly for small ticket items. The budget's policy mix – including continued capex, job creation, support for manufacturing and agriculture– is likely to be positive for India's potential growth. We estimate real GDP growth for FY25 at 7.1%.*

- ***Fiscal consolidation continues:*** *The budget reduced the fiscal deficit target from 5.1% of GDP in the interim budget to 4.9% for FY25. The budget projects higher revenue receipts (primarily due to additional RBI & PSU dividends) to the tune of 0.4% of GDP in FY25 compared to the interim budget. Half of this additional fiscal space has been used for fiscal consolidation (20 bps) and the other half has been deployed for additional revenue expenditures (excluding subsidy and interest payments). The FM's speech also mentioned the governments' resolve to lower the fiscal deficit target below 4.5% of GDP in FY26 and thereafter the fiscal trajectory is likely to be supportive of keeping India's debt on a sustainable path.*

- ***Revenue receipts assumptions seem conservative and could see further upside****: The budget has set a higher revenue receipts target of INR 31.3 lakh crore for FY25, an increase of 14.7% from FY24 and as compared to INR 30 lakh crore set in FY25 IE. Gross Tax-to-GDP ratio is expected to pick-up to 11.8% in FY25 BE from 11.6% in FY24. The budget relies on continued healthy collections in both direct taxes and RBI & PSU dividends. Despite the higher receipts target, collections could see a further upside as – 1) the budget assumes nominal GDP growth of 10.5% for FY25 BE, compared to our estimate of 11.1%, 2) GST collection target also seem conservative based on the current monthly run-rate. The changes in indirect (custom duty changes) and direct taxes (income tax slab change, corporate tax change, gain from capital gain tax) announced in the budget are unlikely to lead to a significant revenue loss on a net basis.*

- ***No compromise on the capex strategy:*** *The allocation towards asset creation remains unchanged at the interim budget's estimate of Rs 11.1 lakh crore and accounts for 3.4% of GDP. However, the mix of this capex across sectors has seen some change. For instance, interest free capex loans to states have increased while allocation to the petroleum ministry has declined.* ***In terms of schemes,*** *the allocations for agriculture, housing, urban development (smart cities & metro projects), National Health Mission and education have seen a marginal increase from the interim budget.*

- ***Transfer to States:*** *Quite predictably, the finance minister, has had to make overtures towards the states run by its coalition partners. Both Bihar and Andhra Pradesh have had their fair share of allocation either directly or through soft loans from multilateral agencies that the centre will help service. The total transfer to states is projected to increase by*

*INR 74,439 crore from the interim budget. This accounts for both higher tax devolution (due to higher total tax receipts) and "other transfers" which includes transfers to states like BH & AP and slightly higher allocation for interest free capex loans (targeted at INR 1.5 lakh crores).*

- ***Bond Market & Borrowings:*** *The details on the financing of the fiscal deficit show that the government plans to reduce its borrowing both through dated securities, short term borrowings and small saving funds while accounting for a higher draw down on its cash balance (INR 1.37 lakh crores) in FY25. The 10-year bond yield rose by 3bps post the budget announcement (close to 6.99% at the time of writing) as the borrowing cut for FY25 was lower than anticipated. Gross market borrowings were reduced only by INR 12,000 crores. Going forward, we expect the 10-year bond yield to inch lower to 6.8-7.0% range by the end of Q2 FY25 and 6.7-6.9% by Dec-2024 end. FII debt flows, lower US yields, and likely rate cut by RBI in Q4 2024 are expected to support domestic yields.*

- ***Addressing risks:*** *Although markets have been disappointed with the increase in the capital gains tax, this is in line with the recent communication by different branches of the government and regulators to be cautious and prevent any excess build-up of risk in the system.*

- ***Price stability & improving food supply chains:*** *Schemes like promoting self-sufficiency in pulses and oilseeds and the creation of vegetable production clusters could help address structural issues that have weighed on food inflation and price stability.*

## Budget Details

**Receipts higher than interim estimates (IE) but could still see further upside:** *The budget has set the revenue receipts target at INR 31.3 lakh crore for FY25, an increase of 14.7% from FY24 and as compared to INR 30 lakh crore set in FY25 IE. Gross Tax-to-GDP ratio is expected to pick-up to 11.8% in FY25 BE from 11.6% in FY24. The budget relies on continued healthy collections in direct taxes, GST and RBI and PSU dividends. With nominal GDP growth assumed at 10.5% for FY25 BE, some of the receipt collections could be higher than estimated in the budget.*

- **Nominal GDP growth assumption for FY25 BE is kept unchanged** at 10.5% YoY as compared to interim budget estimates and higher than 9.6% in FY24. That said, budgeted nominal GDP growth assumption is lower than our estimate of 11.1% YoY for FY25.

- **Tax to GDP ratio is expected to pick-up to 11.8% in FY25 BE** (vs. 11.7% FY 25 IE and 11.6% in FY24). Income tax buoyancy is budgeted at 1.53 while corporate tax buoyancy is budgeted at 1.0 (lower than interim budget estimates of 1.24). Moderation in corporate tax buoyancy in FY25 BE is likely due to the expected lower corporate tax collections due to the reduction in corporate tax on foreign companies (from 40% to 35%) – announced in the budget.

- **A conservative GST target**: Collections are budgeted at INR 10.6 lakh crore in FY25. Our calculation shows that a monthly run rate of INR 1.5 lakh crore/month is required to meet the target vs. the current run rate (average for Q1 FY25) of INR 1.86 lakh crore.

- **Dividends from RBI and PSU – high reliance in FY25:** Total dividends from RBI and PSU at INR 2.9 lakh crore in FY25 BE is higher than FY 25 IE by INR 1.4 lakh crore – accounting for the higher RBI dividend announced. On the other hand, the disinvestment target has been kept unchanged (at INR 50,000 crores) from the interim budget. So far (Apr-May 24), no collection has been on disinvestment front.

- **Policy changes:** Changes in custom duty, capital gains tax and income tax slabs on a net basis is projected to lead to a revenue loss of INR 7,000 crores.

    - **Revision in new income tax regime, cut in custom duty:** Changes in tax slabs (*tax slab limit for 5% tax changed from INR 5 lakh to INR 7 lakh and a hike in standard deduction*) and cut in custom duty for certain products including gold, silver is likely to result in revenue loss of around INR 37,000 crore (*INR 29,000 crore in direct taxes and INR 8,000 crore in indirect taxes*).
    - **Capital gains tax:** Short-term gains on certain financial assets hiked to 20% (from 15%) while under the long-term capital gains (*assets held for more than a year will be classified as long term*), the rate was hiked to 12.5% from 10% earlier. Exemption limit for long-term capital gains increased to INR 1.25 lakh from INR 1 lakh per year.

**Expenditure: Some increase in revenue expenditure, no compromise in capex:** *In the final budget of FY25, the Government increased its overall expenditure target to INR 48.21 lakh Cr as compared to INR 47.66 lakh Cr in the interim budget. As compared to FY24, expenditure is budgeted to increase by 8.5% in the final budget for FY25.*

- The increase in the expenditure of INR 55,000 crores compared to the interim budget is primarily on account of an increase in the revenue expenditure as the Government left its capex target unchanged at INR 11.1 lakh Cr. The major segments which saw an increase on the revenue expenditure side were subsidies, housing, agriculture, and energy. The revenue expenditure allocation for labour and skill ministry was also revised up, reflecting the employment and skill related schemes highlighted by the FM in her speech.
- **No compromise in the quality of expenditure:** The ratio of capex to revex was largely unchanged at 0.30 as compared to interim budget and has improved from FY24 (at 0.27). The unchanged capex target and absence of a large increase in the revenue expenditure helped to maintain the quality of expenditure in FY25.
- **Capex loans to states increased, target for ministry of Petroleum reduced:** The interest free capex loans target to states was revised up to INR 1.50 lakh Cr from INR 1.30 lakh Cr in the interim budget. The increase in the interest free capex loans to states was largely offset by reduction in the capex target to the Petroleum and Natural Gas segment. The budgeted capex of Ministry of Petroleum was reduced to INR 1,129 Cr from the interim target of INR 15,408 Cr. This reflects the reduction in capital assistance to Oil Market Companies worth INR 15,000 Cr that the interim budget accounted for.
- **Revenue expenditure breakdown:** In the final budget, the Government increased the subsidy bill to INR 4.3 lakh Cr from INR 4.1 lakh Cr in the interim budget. The upward revision was on account of an increase in a) credit linked subsidy to economically weaker and middle-income group and b) allocation to price stabilisation fund and PM Annadata Aay Sanrakshan Yojna. In contrast, the interest payments were reduced to INR 11.6 lakh Cr from INR 11.9 lakh Cr in the interim budget. Revenue expenditure excluding subsidy and interest payments is targeted at INR 21.2 lakh Cr vs. the interim budget target of INR 20.5 lakh Cr.
- **PLI allocation:** Allocation for textiles increased by INR 40 crores, while allocations remained unchanged for all other sectors compared to the interim budget.
- **Transfer to states:** Total transfers to states in FY25 increased by INR 74,439 crore compared to interim budget. Of which,
    - INR 42,481 crores increased in 'other transfers' which includes increase in central capex loans (by INR 20,000 crores) and special assistance to states (by INR 16,000 crores) and other central sector schemes.



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- Tax devolution to states increased by INR 27,428 crores on account of higher tax revenue collection.

**Special announcements for Bihar and Andhra Pradesh**

| States | Announcements |
|---|---|
| Bihar | • *Expressway and highway projects: INR 26,000 Crores*<br>• *2400-Watt power plant project: INR 21,400 Crores*<br>• *Irrigation and flood control projects: INR 11,500 Crores*<br>• *Industrial node in Gaya on Kolkata – Amritsar corridor.*<br>• *Tourism infrastructure development in Gaya, Bodhgaya and Rajgir.*<br>• *Airports, medical colleges and sports infrastructure* |
| Andhra Pradesh | • *INR 15000 crores through multilateral development agencies*<br>• *Support for Polavaram irrigation project*<br>• *Funds under AP reorganisation Act for water, power, railways and roads* |

## Financing of the fiscal deficit: Market borrowings reduced, reliance on cash balances increased

- The budget has targeted a lower fiscal deficit of 4.9% of GDP for FY25 (compared to 5.1% in the interim budget) which translates to INR 16.13 lakh crores in level terms. <u>This is lower by INR 72,000 crores compared to the interim budget.</u>

- <u>The details on the financing of the fiscal deficit show that the government plans to reduce its borrowing both through dated securities, short term borrowings and small saving funds while accounting for a higher draw down on its cash balance</u> (INR 1.37 lakh crores) in FY25. To recall, the government reduced its T-bill borrowing (Gross) by INR 60,000 crores in Q1 FY25.

- The 10-year bond yield rose by 3bps post the budget announcement (close to 6.99% at the time of writing) as the borrowing cut for FY25 was lower than anticipated. Gross market borrowings were reduced only by INR 12,000 crores. Going forward, we expect the 10-year bond yield to inch lower to 6.8-7.0% range by the end of Q2 FY25 and 6.7-6.9% by Dec-2024 end. FII debt flows, lower US yields, and likely rate cut by RBI in Q4 2024 are expected to support domestic yields.


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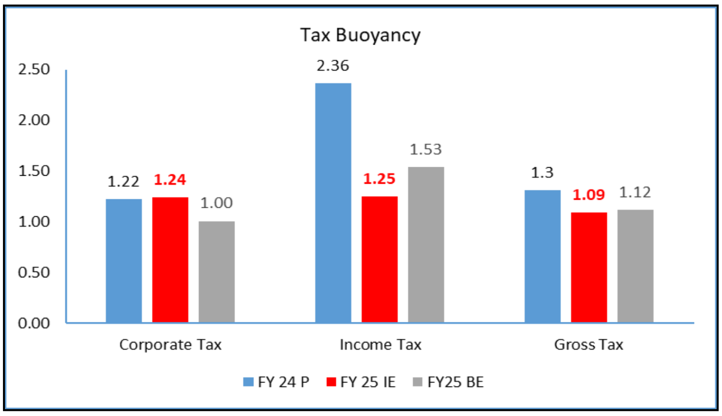
**Breakdown of Revenue receipts**

| | INR Lakh crore | | | %YoY | |
|---|---|---|---|---|---|
| | FY24 P | FY25 IE | FY25 BE | FY24 | FY25BE |
| Revenue Receipts | 27.3 | 30.0 | 31.3 | 14.5 | 14.7 |
| Net Tax revenue | 23.3 | 26.0 | 25.8 | 10.9 | 11.0 |
| Gross Tax revenue | 34.6 | 38.3 | 38.4 | 13.4 | 10.9 |
| Direct Tax | 19.6 | 22.0 | 22.1 | 17.9 | 12.8 |
| Income Tax | 10.4 | 11.6 | 11.9 | 25.4 | 13.6 |
| Corporate Tax | 9.1 | 10.4 | 10.2 | 10.3 | 12.0 |
| Indirect Tax ex GST | 5.4 | 5.5 | 5.6 | 1.1 | 3.3 |
| Customs | 2.3 | 2.3 | 2.4 | 9.2 | 1.7 |
| Excise | 3.1 | 3.2 | 3.2 | -4.4 | 4.6 |
| GST | 9.6 | 10.7 | 10.6 | 12.7 | 11.0 |
| Non tax revenue | 4.0 | 4.0 | 5.5 | 40.8 | 35.6 |
| RBI Dividend | 1.1 | 1.0 | 2.3 | 175.7 | 109.1 |
| PSU Dividend | 0.64 | 0.48 | 0.56 | 6.4 | -11.7 |
| Non Debt Capital Receipts | 0.6 | 0.8 | 0.8 | -16.0 | 29.0 |
| Divestment | 0.2 | 0.5 | 0.5 | -53.3 | 202.9 |
| Total Receipts | 27.9 | 30.8 | 32.1 | 13.6 | 15.0 |
| Nominal GDP | 295 | 327.7 | 326.4 | 9.6 | 10.5 |

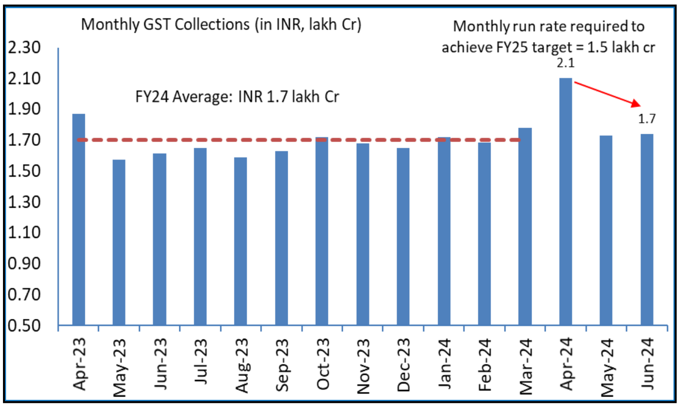
FY 24 P = Provisional, FY25 IE = Interim Budget Estimates, FY25 BE = Budgeted Estimates, FY25 BE %YoY is calculated over FY24 P

Tax buoyancy estimated at 1.12 in FY 25 BE vs. 1.3 in FY24P




Source: CEIC, Budget documents, HDFC Bank

Monthly run rate required to meet FY 25 GST target = INR 1.5 lakh cr.




Source: CEIC, Budget documents, HDFC Bank



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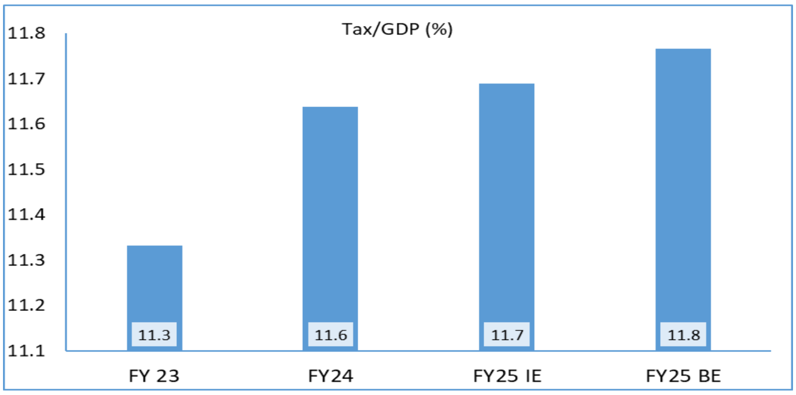
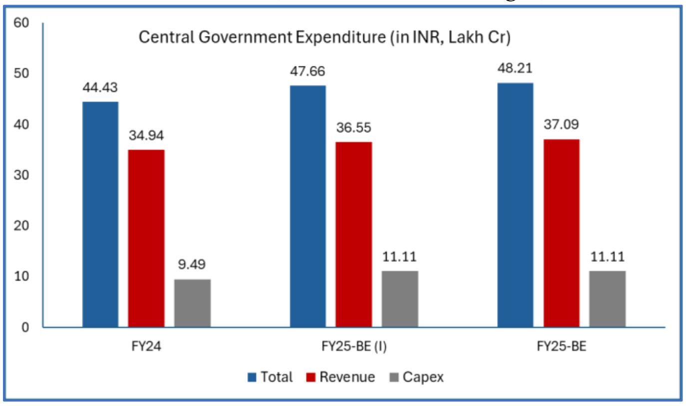
Tax to GDP ratio budgeted to rise to 11.8% in FY25 from 11.6% in FY24 P



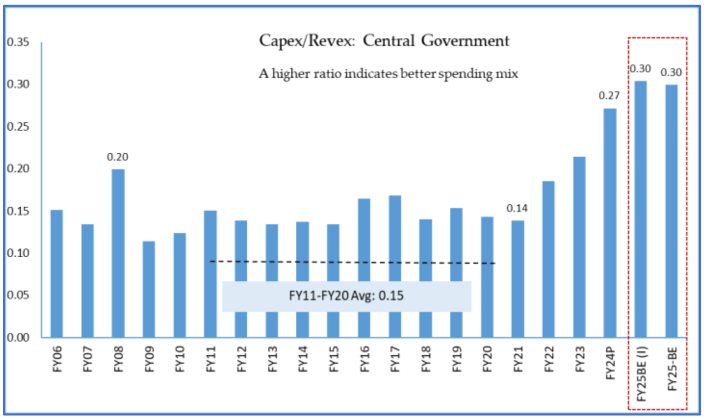

Source: CEIC, Budget documents, HDFC Bank

Capital expenditure remains unchanged at 11.1 lakh crore in FY25 BE (vs. the interim budget)



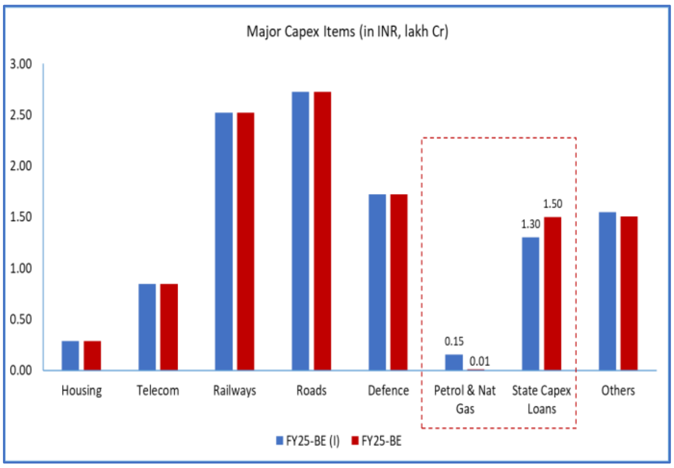

Source: Budget Documents, CGA, HDFC Bank

Capex to Revex ratio budgeted to improve to 0.30 in FY25 from 0.27 in FY24




Source: Budget Documents, CGA, HDFC Bank

Capex allocation for petroleum reduced while increased for states




Source: Budget Documents, CGA, HDFC Bank

Revenue expenditure for Agri, housing, labour increased, although only marginally compared to Interim Budget

| Revenue Expenditure of Major Ministries in FY25 | | | |
|---|---|---|---|
| (in INR Lakh Cr) | Interim | Final | Change |
| Agriculture | 1.17 | 1.22 | 0.05 |
| Consumer Affairs | 0.002 | 0.10 | 0.10 |
| Economic Affairs | 0.10 | 0.14 | 0.05 |
| Electronics | 0.21 | 0.21 | 0.01 |
| Housing | 0.49 | 0.54 | 0.05 |
| Labour | 0.12 | 0.22 | 0.10 |
| Energy | 0.13 | 0.19 | 0.06 |
| Skill | 0.03 | 0.04 | 0.01 |
| Sub Total | 2.26 | 2.68 | 0.42 |
| *Total Revex* | *36.55* | *37.09* | *0.55* |

Source: Budget Documents, CGA, HDFC Bank



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Outlay on major schemes/sectors: FY25 BE (Final vs Interim)

| Outlay on major sectors/ schemes | | | | | (INR Crore) | Change | |
|---|---|---|---|---|---|---|---|
| S No | Sector/Schemes | 2022-2023 Actual | 2023-2024 Revised Estimates | 2024-2025 Budget Estimates (Interim) | 2024-2025 Budget Estimates (Final) | FY25 BE vs FY24 RE % YoY | Change: Final vs Interim (INR Crores) |
| **1** | **Agriculture** | **1,25,875** | **1,40,533** | **1,46,819** | **1,51,851** | ***8.1*** | ***5,032.0*** |
| 1.1 | PM-KISAN | 58,254 | 60,000 | 60,000 | 60,000 | *0.0* | *0.0* |
| 1.2 | Crop Insurance | 10,296 | 15,000 | 14,600 | 14,600 | *-2.7* | *0.0* |
| **2** | **Rural Development** | **2,38,396** | **2,38,984** | **2,65,808** | **2,65,808** | ***11.2*** | ***0.0*** |
| 2.1 | MNREGS | 90,806 | 86,000 | 86,000 | 86,000 | *0.0* | *0.0* |
| 2.2 | PMGSY (Rural Roads) | 18,783 | 17,000 | 19,000 | 19,000 | *11.8* | *0.0* |
| 2.3 | Rural Drinking Water | 54,700 | 70,000 | 70,163 | 70,163 | *0.2* | *0.0* |
| **3** | **Education** | **98,567** | **1,08,878** | **1,24,638** | **1,25,638** | ***15.4*** | ***1,000.0*** |
| 3.1 | National Education Mission | 32,515 | 33,000 | 37,500 | 37,500 | *13.6* | *0.0* |
| 3.2 | PM POSHAN | 12,681 | 10,000 | 12,467 | 12,467 | *24.7* | *0.0* |
| **4** | **Health** | **73,551** | **79,221** | **90,171** | **89,287** | ***12.7*** | ***-884.0*** |
| 4.1 | National Health Mission | 31,279 | 31,551 | 31,967 | 36,000 | *14.1* | *4,033.0* |
| 4.2 | POSHAN 2.0 | 19,876 | 21,523 | 21,200 | 21,200 | *-1.5* | *0.0* |
| 4.3 | PMSSY (Swastya Suraksha) | 7,518 | 1,900 | 2,400 | 2,200 | *15.8* | *-200.0* |
| **5** | **Social Welfare** | **40,470** | **46,741** | **56,501** | **56,501** | ***20.9*** | ***0.0*** |
| **6** | **Urban Development** | **77,310** | **69,271** | **77,524** | **82,577** | ***19.2*** | ***5,053.0*** |
| 6.1 | Metro Projects | 18,831 | 19,508 | 21,336 | 21,336 | *9.4* | *0.0* |
| 6.2 | AMRUT and Smart Cities | 15,153 | 13,200 | 10,400 | 10,400 | *-21.2* | *0.0* |
| **7** | **Transport** | **3,90,508** | **5,24,941** | **5,44,039** | **5,44,128** | ***3.7*** | ***89.0*** |
| 7.1 | Roads (MoRTH) | 2,17,089 | 2,76,351 | 2,78,000 | 2,78,000 | *0.6* | *0.0* |
| 7.2 | Railways | 1,62,410 | 2,43,272 | 2,55,393 | 2,55,393 | *5.0* | *0.0* |
| **8** | **Housing (PMAY)** | **73,615** | **54,103** | **80,671** | **84,671** | ***56.5*** | ***4,000.0*** |
| **9** | **Energy** | **65,717** | **54,989** | **76,302** | **68,769** | ***25.1*** | ***-7,533.0*** |
| 9.2 | Capital outlay on petroleum | 0 | 40 | 15,408 | 1,128 | *2,717.9* | *-14,280.0* |

Source: Budget documents, HDFC Bank

PLI allocation for major sectors: Broadly unchanged from Interim

| PLI allocation by Sector | | | | *FY25 BE vs FY24 RE % YoY* |
|---|---|---|---|---|
| Sector | FY24 RE | FY25 BE (I) | FY 25 BE (Final) | |
| Electronics | 4,560 | 6,200 | 6,200 | 36.0 |
| Auto | 484 | 3,500 | 3,500 | 623.1 |
| Pharma | 1,696 | 2,143 | 2,143 | 26.4 |
| White goods | 65 | 298 | 298 | 358.5 |
| ACC Battery | 12 | 250 | 250 | 1983.3 |
| Drone | 33 | 57 | 57 | 72.7 |
| Textiles | 5 | 5 | 45 | 800.0 |
| **Total** | **6,855** | **12,453** | **12,493** | **82.2** |

Source: Budget documents, HDFC Bank

| Transfer of Central Resources to States (INR Lakh Crores) | | | | | |
|---|---|---|---|---|---|
| Year | Tax Devolution to states | Finance Comission Grants | Centrally Sponsored Schemes | Other Transfers | Total Transfer |
| FY23 | 9.5 | 1.7 | 4.4 | 3.1 | 18.6 |
| FY24 RE | 11.0 | 1.4 | 4.6 | 3.9 | 21.0 |
| FY25 BE (I) | 12.2 | 1.3 | 5.0 | 4.2 | 22.7 |
| FY25 BE | 12.5 | 1.3 | 5.1 | 4.6 | 23.5 |
| % YoY | | | | | |
| FY25 over FY24 | 12.9 | -5.7 | 9.8 | 17.8 | 11.9 |
| Change over Interim Budget (INR Crores) | | | | | |
| Change over Interim Budget | 27,428 | 0 | 4,190 | 42,821 | 74,439 |

Source: Budget documents, HDFC Bank

Financing of fiscal deficit

| INR Trn | FY23 | FY24 P | FY25 Interim BE | FY25 BE | Change from Interim Budget |
|---|---|---|---|---|---|
| **Fiscal Deficit** | **17.4** | **16.5** | **16.85** | **16.13** | **-0.72** |
| **Net market borrowings** | **11.1** | **11.8** | **11.75** | **11.63** | **-0.12** |
| Net Repayments | 3.1 | 3.6 | 2.4 | 2.1 | - |
| *Buybacks* | - | - | - | *0.3* | - |
| *Switches* | *1.0* | *1.0* | *1.0* | *1.5* | - |
| **Gross Market Borrowings** | **14.2** | **15.4** | **14.13** | **14.01** | **-0.12** |
| Short term borrowings | 1.1 | 0.5 | 0.5 | -0.5 | -1.0 |
| | | | | | |
| Other sources of financing | | | | | |
| **Securities against small savings** | **4.0** | **4.5** | **4.7** | **4.2** | **-0.5** |
| State provident fund net | 0.1 | 0.1 | 0.1 | 0.1 | - |
| Other receipts net | 0.8 | 0.8 | -0.3 | -0.8 | **-0.5** |
| Draw down of cash balance | -0.02 | -1.7 | 0.04 | 1.4 | **1.37** |
| | | | | | |

Source: Budget documents, HDFC Bank


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